Toward a New Generation of Policies to Enhance Land Access for Growth and Poverty Reduction in Central America and Mexico

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CONTENTS

Executive Summary		1
SECTION I	Introduction	2
SECTION II	Land Access of Low Wealth Households in an Era of Land Market Reforms	4
SECTION III	The Two Dimensions of Land Access Policy	10
SECTION IV	Lessons and Practical Issues Identified by Policy Makers and Land Policy Program Officers in the Region	16
SECTION V	Toward a Next Generation of High Leverage Land Policy	21

Executive Summary

New research findings show the impacts of recent land market reforms and programs on land access and welfare of low wealth households in Guatemala, Honduras, Mexico, and Nicaragua:

1. *Land is disproportionately valuable to poor households.*
2. *Assigning land rights to women enhances the impact of land access on household well-being.*
3. *The transfer of land to the rural poor has been slow in the wake of recent reforms.*
4. *Limited access to capital negatively impacts the competitiveness and land access of low wealth households.*

Consensus is emerging among researchers and policymakers that any policy to enhance operation of land markets to bolster land access of poor rural households must be matched with measures that simultaneously broaden access to capital and other complementary inputs. Without such matching measures, the ability of less well-off households to access land through either rental or purchase markets is diminished.

While several innovative programs try to achieve the twin goals of land and capital access, to date they have had relatively little success at leveraging access to private capital to make such efforts a widespread success. This lack of success reflects the continuing reality of transactions costs and risk that inhibit private lending to small-scale agriculture. Innovative ideas such as index-based insurance against correlated risk and agricultural loan guarantee funds (perhaps underwritten by deposits from emigrant remittances) are key policies to open the way to highly leveraged land access programs to enhance growth and poverty reduction in rural areas of Central America.

Moving forward toward a next generation of high leverage land policy thus requires attention to both land and finance, and specifically to transactions costs and information constraints that inhibit the operation of private capital markets in rural areas. The consensus is that such a policy regime is both desirable and necessary. The challenge is thus to move forward creatively in an integrated fashion and be prepared to learn from innovative programs.

I. Introduction

In 2003, the World Bank, in collaboration with USAID and many other bilateral and multilateral donors, completed a major Policy Research Report (PRR) entitled *Land Policies for Growth and Poverty Reduction*. This report embodies a two-year process of academic, policy, and political discussions around the world on land issues. The report summarizes leading edge research on recent land policy initiatives, and offers general guidelines for best practice land policy worldwide.

Managua, Nicaragua was the site of a conference, "Improving Land Access to Broaden the Base of Economic Growth," August 30-31, 2004, which brought together academics, policy makers, and land policy program leaders to fine-tune and bring the lessons of the PRR to Central America. The conference featured discussions of new primary research on the interactions between land policies and land access in Central America and Mexico. The conference also highlighted recent trends and future directions of land policies in Guatemala, Honduras, and Nicaragua. The goal was to deepen ongoing efforts to forge a robust regional dialogue on best practice policies to enhance land access and the impact of growth on the rural poor.

The conference was held at an opportune moment in the history of land market policy efforts in Central America as the next generation of policy reforms and program development are under discussion for development. Perhaps Nicaragua is the most dramatic case, where the government recently identified agrarian and land policy innovation as top priority in the national growth and poverty reduction effort that will be undertaken with the assistance of a U.S. State Department Millennium Challenge Account. Honduras is also entering a period of agrarian and land policy reconsideration following the recent announcement of the establishment of an inter-ministerial National Land Commission whose purpose is to design the next generation of land policies, also with the aim of promoting equitable growth. At a regional level, this conference followed on a six-country, simultaneous video conference held in April 2004 that brought together professionals from land administration, land conflict, and land access programs in Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua to share experiences and reflections on the progress of land policies and programs in their countries.

At an international level, the World Bank, European Community, and other international agencies appear to be entering an era of discussion on the next generation of land market policies and programs. One reflection of this effort is the PRR mentioned above, and ongoing discussions about how to build the next round of policies from the lessons learned in the first round. Another is the World Bank's Rural Drivers Program (discussed below) that emphasizes the crucial role of attending to complementary factor markets and infrastructure in addition to land access and administration. All land policy issues are in debate in an era of peace and open discussion throughout all Central American countries, an element not lost on participants. On the one hand the dialogue allowed for serious consideration of a wide range of policy options, while, on the other, it gave a sense of urgency to the participants that the time is ripe for pursuing more effective and equitable land market policies.

The conference was also timely for academic and information-sharing reasons. Two major academic initiatives emanating from Guatemala were featured:

- The recently formed graduate program in Land Administration for Sustainable Development at the University of San Carlos, which provides postgraduate certificates (for one-year students) and master's degrees (for two-year students)

- The recently opened Red Centroamericana de Capacitación en Administración de Tierras (RECCAT), a Web site on land administration and access issues.

Leaders from both initiatives were given time to introduce their efforts and an opportunity to place the initiative in the context of ongoing land policy and program discussions. In the case of faculty involved with the Land Administration Program at the University of San Carlos, they highlighted the major role they play in the evaluation and public debate of the many agrarian and rural development proposals offered by civil society organizations in Guatemala since the Peace Accords were signed in the mid-1990s. In the case of RECCAT, which opened earlier this year, organizers emphasized their rapid progress in becoming a major informational clearinghouse for land policy matters in Central America. In addition, it is worth noting that, because a large contingent of faculty and students from the University of San Carlos Land Administration Program participated in the conference, they were able to network informally with academics and policy makers from around the region. This opportunity was widely viewed as an important boost to their academic initiative.

The next sections present the main lessons that emerged from the conference as well as reflections on programs that may contribute to future steps forward. Section II summarizes research findings that, for the most part, evaluate the first generation of land market policy reforms based on academic investigations in Central America and Mexico. The results are presented succinctly and refer readers to underlying studies for details that buttress the findings. Section III provides a discussion of policy implications of those findings, which is aimed at pointing toward the next generation of land (and other) market policies that need attention. Section IV integrates from the conference the lessons and practical issues that policymakers and land policy program officers in the region identified, with an effort to reflect back on what their ground-level perspectives mean for research findings and policy implications. The conclusion of the report, Section V, pulls these threads together with a look forward in terms of policy and future research.

II. Land Access of Low Wealth Households in an Era of Land Market Reforms

Latin American countries went through major transformations in economic development strategies in the 1990s, with almost the entire region moving solidly in the direction of market orientation, openness, and competition. Heavy government intervention, protectionism, and broad regulations gave way to a framework in which free markets were broadly recognized as the primary mechanisms for promoting efficient resource allocation and growth. In many countries, including Mexico, Honduras, and Nicaragua, policy reforms aimed at improving both the efficiency and equity of land market outcomes were a core element of this liberalization and deregulation process. A remarkable feature of this historically significant shift in economic strategy is that it occurred under democratic rule in virtually every country in Latin America.

Research summarized in this section provide a timely contribution to the issue of making land market policies work for the rural poor throughout Central America. This report investigates the effects of land market reforms on the rural poor in terms of their land access, credit access, gender roles and intrahousehold issues, and the overall welfare of rural households. Across Central America, the recent rounds of reforms were aimed at strengthening private property rights in land through titling, legal measures, and contract enforcement efforts, at the same time that government regulations on land use and intervention in key rural factor markets, such as credit, were reduced. The intentions were to use the increased security of property rights and the signals sent by market prices to encourage investment in agricultural activities, to improve credit access, and to promote a more efficient allocation of land (via activation of land rentals and sales). Underlying this policy regime was the view that these market-oriented reforms would benefit the rural poor by promoting more labor market opportunities, better access to land and credit, and the security, incentives, and capacity to pursue higher return activities in agriculture and beyond. Taken together, these opportunities would lead to improvements in both the efficiency and equity outcomes among the rural poor.

The evidence presented below supports four basic findings concerning the impact of recent land market reforms and programs on the land access and welfare of low wealth households in Guatemala, Honduras, Mexico, and Nicaragua. These are:

1. *Land is disproportionately valuable to poor households*
2. *Assigning land rights to women enhances the impact of land access on household well-being*
3. *The transfer of land to the rural poor has been slow in the wake of recent reforms*
4. *Limited access to capital negatively impacts the competitiveness and land access of low wealth households*

The evidence and logic of each of these four basic findings is summarized succinctly below. Whenever possible, each summary explores how these findings differ across countries to help draw attention to the importance of tailoring subsequent policy reforms to specific contexts.

1. *Land is disproportionately valuable to poor households*. It is important address the issue of whether land is an important poverty-reducing instrument, in light of a number of recent empirical studies that have questioned its role in helping poor households (López and Valdés 2000a, López and Valdés 2000b). Finan, Sadoulet, and de Janvry (2003). Studies

offer a robust response to this concern in their examination of the impact of land holdings on the welfare of the rural poor in Mexico. Researchers' work, unlike previous studies, avoids relying on income measures that are restrictive as a measure of household welfare, but instead constructs a multidimensional measure of welfare as advocated in poverty studies (World Bank 2001). Research analyzes land to enter in a way that reflects differences across households in terms of overall asset positions, other household characteristics, and the surrounding context that influences the value of land.

Researchers find that a small amount of land can indeed create significant welfare gains by permitting poor households to mobilize family labor affected by labor market failures. These results are strongest for households with less than three hectares of land, and the value of land becomes relatively constant for households with more than three hectares. This means that land is *disproportionately valuable for rural households with little or no land*. Moreover, they find that these results depend crucially on "both the complementary assets (such as education) and the contextual settings (such as infrastructure) of the poor." In addition, they find that ethnicity is an important negative social asset, in that the value of land for nonindigenous households is on average twice as high as it is for indigenous households. Overall, then, "when complementary assets and a favorable context are in place, access to even a small amount of land can help households escape poverty."

These findings are strongly consistent with the results of a World Bank research project on the Drivers of Growth in Central America (see Siegel 2005). The conceptual take-off point of this initiative is that the best way to understand the determinants of rural poverty and potential strategies for poverty alleviation is to examine the opportunities available to rural households given the interactions among their productive asset holdings (land, human capital, financial capital), the relevant social assets (local networks, governance structures), and the locational assets (infrastructure, distance from markets, and agroecological zones). The analysis combines a territorial analysis of agro-ecological zones and asset holdings of rural households in those zones, an analysis of rural household activity patterns, corresponding social and physical infrastructure, and local policy initiatives aimed at these households. Preliminary results are available for all countries examined in this conference, Guatemala, Honduras, and Nicaragua.

The first major result is not surprising though nonetheless crucial for policy discussions because it highlights the variation in opportunities across economic locales, especially those far from major markets. The second major result is that higher regional economic potential does not translate necessarily into better conditions for rural households because many of those households lack access to key assets. Most fundamental of those, according to Siegel (2005), are education and local infrastructure, and that access to land becomes crucial in locations where the complementary household and social endowments are available. Put simply, their results are essentially the same as those reported from Mexico by Finan et al. (2003); land access is critical when complementary assets and a favorable context exist for the effective deployment of the land assets. Put differently, Siegel (2005) find that the poorest rural households are those with little or no access to land.

Work by Olinto, Conning, and Trigueros (2001) in El Salvador reinforces the finding that land is disproportionately valuable for poor, rural households from a different angle. Specifically, they look at a welfare indicator that is crucial with respect to breaking the cycle of poverty, namely educational investments in children. What they show is that for rural households, land holdings are crucial to maintaining investments in children during rough times because land provides a means of guaranteeing returns to their family labor in periods of low returns to wage labor. This insurance, in turn, enables these families to keep their children in school when wages decline because of price shocks to key commodities or natural phenomena wipe out harvests of major crops, because they can essentially self-insure by putting more of the family labor to work on their own land. Additional work by Olinto (2004) shows that there may well be historical moments and situations, especially during price crises for major commodities, such as occurred with respect to coffee in the 2001 to 2003 period in Central America, that public support for other types of welfare transfers might be more immediately valuable than land access programs. This finding again reinforces the notion that land is disproportionately valuable for the rural poor when complementary assets and a favorable context exist for its effective deployment. Viewed from this angle, it seems important to highlight the notion that land policy is much more likely to be effective if viewed as part of a broader integrated rural development policy that attends to other key assets, social issues, and infrastructure concerns as well.

2. *Assigning land rights to women enhances the impact of land access on family well-being.* One often overlooked aspect of recent land titling efforts has been the push in some countries to increase the land right assignment to women. In Nicaragua, for example, Agurto (2004) reports that between 1995 and 2003 that land titled to women grew from 15 percent of titled land to 22 percent. As documented in Agurto, this increase in titling is consistent with the important role that women play in agricultural and other rural production activities, and thus is broadly consistent with the notion of getting property rights into the hands of people with incentives to manage the property well. Furthermore, as suggested in many studies of intrahousehold decision-making around the world (see, for example, Quisumbing, Estudillo, and Otsuka 2004), increases in women’s asset and income control is likely to translate into improved family welfare outcomes, especially children’s nutrition, health, and education.

Family welfare improves with the assignment of land rights to women in Honduras and Nicaragua. Katz and Chamorro (2003) demonstrate this outcome by examining the role of property rights over land to women in shaping household food consumption and educational attainment. They find that, controlling for household income and other factors, there are modest but significant effects on both household food consumption and educational attainments when women have titled land. The estimated effects are small (2-3 percent increase in food consumption; and a 0.1 year improvement in educational attainment), but these are some of the first findings to quantitatively confirm the hypothesis that strategic intra-household assignment of property rights can boost the food security and welfare effects of land policy. Complementary work by Deere (2004) on women’s land rights in Brazil, Paraguay, and Peru, suggests that the most significant impacts of women’s land titling are found in terms of activity changes and higher income levels earned by women off of the farm.

Overall, these findings support the conclusion that land policy should proactively pursue the assignment of rights to women. The effects of this assignment will be broadly felt across the economy and in ways that could reinforce the push to build complementary assets, such as higher educational attainment, in rural settings.

3. *The transfer of land to the rural poor has been slow in the wake of recent reforms*. Recent measures to increase tenure security and improve the fluidity of land markets have definitely improved the ability of poor households to rent land. This improvement is especially evident in Honduras, where rental activity grew substantially in the era following reforms in titling and land security. Boucher et al. (2005) documents this increase, showing not only a substantive increase in the proportion of land rented out in Honduras and Nicaragua over the past decade, but also a movement of land from larger landholders to smaller landholders with the latter renting-in land from the former.

Unfortunately, the evidence from both Honduras and Nicaragua suggests that land rental markets, though far more active than before the reforms, are having insignificant effects on the overall distribution of land operated. One of the main reasons behind this finding is that the average size of land rentals actually decreased across the two-time periods in the Honduras study, and remained relatively small in Nicaragua. In Honduras, conditional on renting, the average amount of land rented-in was just under two manzanas. While access to an additional two manzanas could have a significant impact on income for landless or near landless households, this feature of land rental transactions (small land amounts) explains why major increases in rental activity have not translated into a more significant shift in the operational farm sizes of the land poor.

Another indicator of the limited role of land rental markets in improving land access is the relatively small percentage of total operated farm area accounted for by land rentals. In the Honduras sample, the operated area under rental rose from 0.18 percent in 1994 to 3.4 percent in 2000, while in Nicaragua it rose from 2.1 percent in 1995 to 5.3 percent in 1999. These percentages of land rentals relative to total operated area are very small when compared to many other parts of the world, where land rental can account for as much as 40-50 percent of total land in agriculture. However, they are of the magnitude of rental rates in Mexico and Brazil, the former that still has more substantial restrictions in rental markets and the latter that has much more open land conflict. One argument may be that despite much policy effort in titling and legal reforms, property rights remain quite insecure in the eyes of landholders, who are thus reluctant to rent out significant amounts of land. Whatever the reason, the fact that over 95 percent of land operated remains in the hands of land owners means that rental market to date have done little to break the structural link between land owned and land operated.

Evidence from Macours (2004) study in the highlands of Guatemala offers additional useful lessons regarding how rental markets operate, especially with respect to titling and land access for the indigenous poor. The study demonstrates that titling of land is crucial to improving the access of the indigenous land-poor to land held by Ladinos, because it helps to make the land rentals more secure for the landowner. However, the study also shows that landowners are far more likely to rent out land to people of similar background, with more wealth and capital access, and that land rental markets are working far less efficiently than they might if titling were more general, credit more available, and infrastructure (both physical and social) better.

On the ownership side, the changes in land access of the rural poor are even less encouraging. Again, for Honduras and Nicaragua, Boucher et al. (2005) report that during the initial reform period of the 1990s that the Gini coefficient for land distribution did not improve, staying highly unequal, and that the only significant changes in land accumulation for different farm size classes were in rural households with upwards of 55 manzanas (or the upper land holding tier of rural households). While the reforms are relatively nascent, and arguably incomplete especially in Nicaragua, the fact that land holdings remain highly dualistic with little sign of significant change is unsettling for policy that has as a major aim transferring land into the hands of the rural poor.

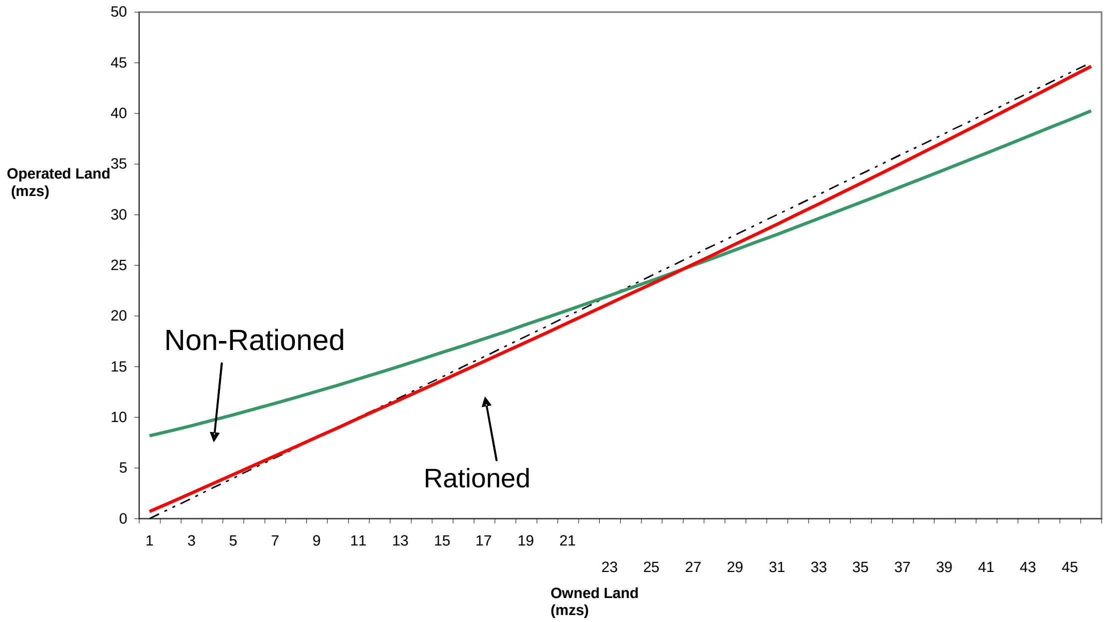
Given these findings, it appears likely that more proactive policies such as land banks are necessary if the poor are to enjoy benefits of improved land access. Similar policies are being pursued in Brazil and South Africa, and warrant further evaluation for their applicability to Honduras and Nicaragua. It also appears evident that even the first generation reforms of land titling and property security improvement have some distance to go in most of the region.

4. *Limited access to capital negatively impacts the competitiveness and land access of low wealth households*. Access to capital is crucial to the ability of low wealth households to use their relatively abundant labor and scarce other assets to improve their welfare. Unfortunately, given the ways that rural credit markets work, most poor rural households are credit-constrained. Boucher et al. (2005) provides evidence that the vast majority of households in the lowest two wealth quintiles of their studies in Honduras and Nicaragua are rationed in their access to bank loans. In the lowest wealth quintile, 60 percent of the households in the Honduras sample, and 80 percent of the households in the Nicaraguan sample reported that they were rationed, and in both countries only two percent of those low wealth households actually reported receiving a bank or other formal sector loan.

These constraints reduce the abilities of poor families to get the most income from land and other resources. They also substantially reduce their capacity to improve their land access through rentals. Boucher and Barham (2004) document this outcome by examining the land rental behavior of Honduran households, controlling for whether they report being credit rationed or not. Then, they use this analysis of constrained and unconstrained land rental outcomes to construct a predicted measure of land access for Honduran households given their initial land holdings. That outcome (presented below as Figure 1) is quite revealing. What it shows is that low wealth households with credit access are predicted to operate far more land than those without credit access given similar initial land holdings. In other words, the lack of credit access substantially reduces the predicted land access of the rural poor. Coupled with the fact that low wealth households are far more likely to be credit rationed than richer households, this outcome helps to explain why the rural poor have seen relatively little improvement in their land access despite considerable investment in first generation land titling and security reforms. What is missing is the complementary improvements in credit access to enable improvements in land access.

Figure 1. Land Operated versus Land Owned for Rationed and Non-Rationed Households

(Honduras 2000)



Thus, a truly effective land program must therefore also tend to constraints in rural financial markets if it is going to have the anticipated impacts on the welfare of the rural poor.

III. The Two Dimensions of Land Access Policy

The prior section has summarized four key findings that have emerged from recent research on land in Central America and Mexico. Given these empirical realities, what can be done to improve the land access of low wealth households and thereby enhance growth with poverty reduction? Given the interconnectedness of land and financial market access, the authors argue that improved land access ultimately requires an integrated, two-dimensional policy that simultaneously addresses weaknesses in both land and financial markets. Diagram 1 lays out two dimensions of policy options that can be pursued to help achieve this goal.

Displayed along the horizontal dimension of Diagram 1 is a continuum of policies that can be expected to enhance land access. Along the vertical axis are policies that can be expected to enhance access to financial services (including access to working capital and instruments to deal with risk). Both axes are organized so that policies closest to the origin (southwest corner of the diagram) are the least interventionist in the sense that they operate by modifying the legal environment in which land or financial transactions take place. The logic of these policies is that once legal conditions are in place for secure transactions, private initiatives coordinated through markets will suffice to improve the land and financial access of low wealth households. Underlying this perspective is of course the idea that markets are fundamentally perfect in the sense that no information or other transactions costs block or inhibit transactions, especially to low wealth households. The logic of these policies is an indirect one in the sense that the policies do not themselves directly supply land or capital to the intended beneficiaries of the policies.

Policies in the middle range of both axes are motivated by the idea that the smooth functioning of financial and land markets is intrinsically inhibited by information and transactions costs that particularly limit the ability of lower wealth households to effectively use these markets. These middle range policies thus address information or transactions costs that might inhibit the functioning of land or credit markets. Similar to the lower range policies, these middle range policies are indirect. They do not directly supply land or services to beneficiaries, but are instead expected to work by crowding in or making possible private transactions in the relevant markets. As will be discussed below, these are high leverage policies.

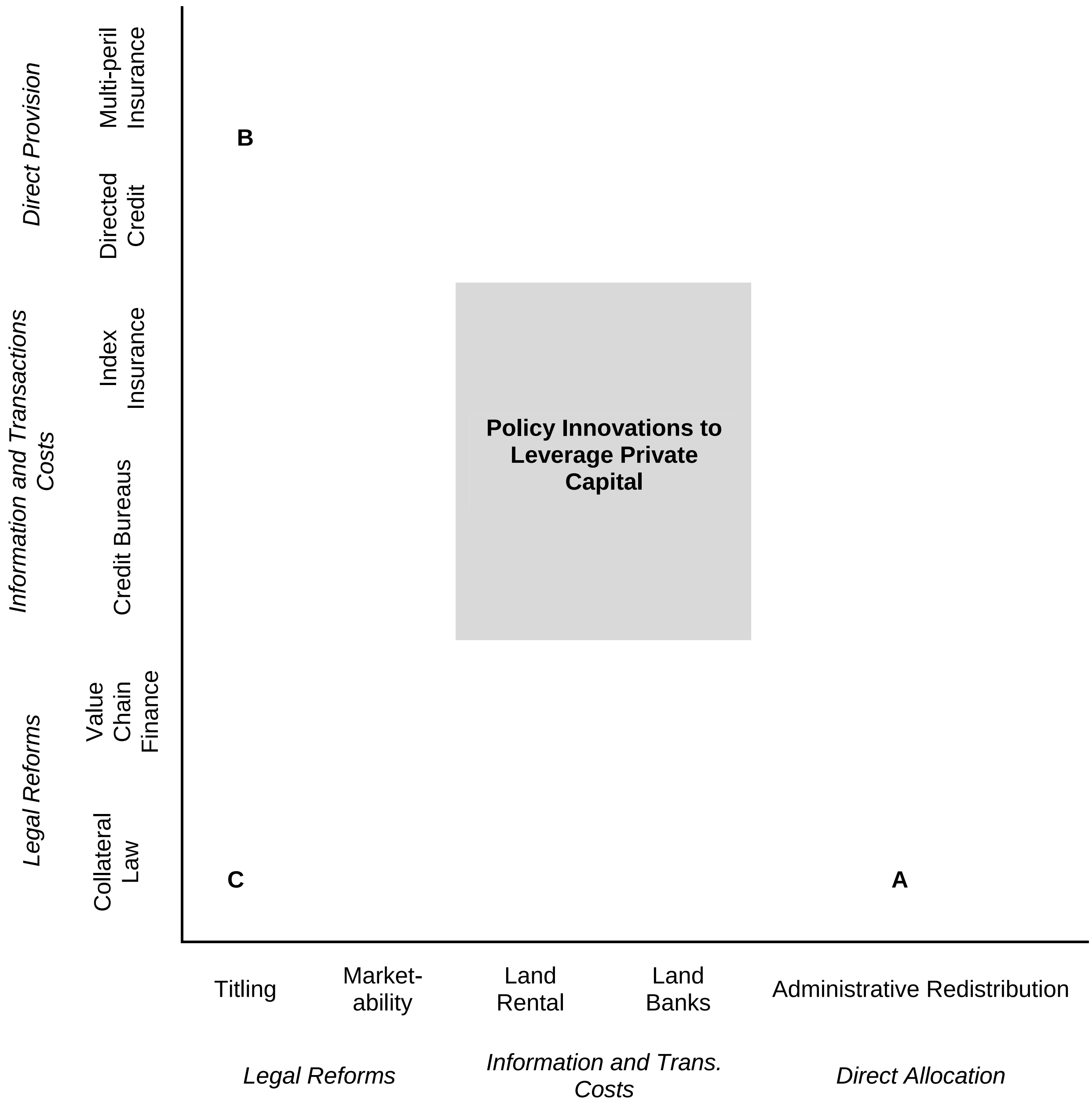


Diagram 1. Policy Space to Enhance Land Access

Finally, policies at the upper end of each continuum are those that directly distribute land or financial services. Such policies have figured prominently in past agrarian regimes in Central America and Mexico. Contemporary policy is much closer to the lower ends of the policy continua, however, both contemporary and historical policy dedicated to land access has often been one-dimensional. As the World Bank's recent land policy research report (PRR) argues, good land policy needs to be an integrated growth and poverty reduction strategy backed at the highest levels of government. But stepping beyond the argumentation of the PRR, evidence brought together in this conference suggests a need for two-track policy that simultaneously addresses access to land and financial services to secure small farm competitiveness that will bring growth with poverty reduction.

Before developing that in more detail, let's look at bit more at elements that comprise the policy space in Diagram 1.

Land Access Policies

The logic of each element along the land access policy dimension is as follows:

Legal reforms to facilitate land market transactions. As summarized in the PRR, the nature of property rights over land can inhibit transactions in land. Clarification or redefinition of property rights is thus hypothesized to open the way to transactions that will enhance both growth and poverty reduction. In addition, it is often hypothesized that the establishment of secure ownership rights to land will increase access to capital. The two main classes of legal reforms to achieve these ends are:

- *Policies that establish clear and secure ownership rights to land*
- *Policies that eliminate marketability restrictions (price or quantity)*

Reducing information and transactions costs barriers to 'inter-class' land transactions. In environments of high land ownership inequality, both land rental and land sales transactions may be inhibited by transactions costs barriers that inhibit inter-class transactions, meaning sales or rentals between individuals who wish to sell or rent-out large tracts, and individuals who wish to purchase or rent-in only small parcels. Institutions have been devised to facilitate inter-class transactions in both rental and sales markets:

- *Land rental*. Policies to promote land rentals seek to reduce different types of transaction costs: search and information costs, bargaining and decision costs, policing and enforcement costs. Among these policies are the ones that strengthen juridical institutions and promote alternative mechanisms of conflict resolution.

- *Land banks and mechanisms of market-assisted land reform*. Land banks purchase large tracts of land and then parcel the land out for sale to those interested in purchasing smaller lots. Recent market-assisted land reform programs in Brazil and Colombia have followed similar principles in devising ways to bring together groups of low wealth households to purchase and then subdivide a large farm (Deininger 2001).

Direct Land Reallocation. Historically in Latin American land reforms, the public sector directly reallocated land to land reform beneficiaries (see Thiesenhusen 1989 for a review of these programs). While these sorts of programs have been questioned on both political and cost-effectiveness grounds (see Deininger 2003), there is continued interest in such an approach to land reform. This is the case in Brazil and elsewhere.

Financial Services Policies

The logic of each element along the financial services policy dimension is as follows:

Legal reforms to facilitate rural lending by making rural assets collateralizable. While there has been much discussion about the putative 'credit supply effects' of land titling programs (see the literature that stretches from Feder et al. 1988 to Carter and Olinto 2003), authors such as Fleisig and de la Peña (2003) have argued that further legal reforms are necessary if securely owned assets are to function effectively as collateral assets. Two key examples of policies designed to transform assets into collateralizable capital are:

- *Reform and unification of collateral laws.* While non-collateral lending plays an important function in the deepening of financial services and the development of the "lending ladder," the ability to collateralize loans increases exponentially the borrowing power of enterprises and households. For lenders to accept assets as collateral, they must:

    - Establish clear ownership of property
    - Define the priority of claims over mortgaged property
    - Rely on the judicial system to resolve contract disputes

Programming interventions to support the development of mortgage laws, property registries, titling schemes, collateral definitions, and priority of claims can help improve the environment for secured lending. There often are many layers of laws—including pledge, mortgage, and property laws—that figure into secured transactions, including collateralized loans.

- *Value chain financing by expanding range of assets that can be collateralized*. In areas where specialized financial institutions are absent, input suppliers, processors and traders may enjoy a unique informational advantage that permits them to accept standing crops as collateral. While these agents may enjoy spatial monopolistic power over borrowers (meaning that credit terms they offer may not be competitive or fair), as non-financial institutions may be limited in the liquidity they can access and lend on to client farmers. Legal reforms that expand their ability to collateralize portfolios of crop claims may provide an avenue by which rural liquidity can be expanded.

Reducing Information and Transactions Costs Barriers to Induce Entry into Financial Services Markets

Policies in this domain begin with the notion that the peculiar characteristics of credit and insurance as commodities block the delivery of competitive financial services to low wealth rural households even when tangible assets like land are securely owned and collateralizable.

- *Credit bureaus to turn "reputational assets" into generalized collateral*. The success with which microfinance institutions have lent to low wealth households demonstrates the power of peer monitoring and reputation as devices to ensure loan repayment. However, as de Janvry et al. (2003) argue, the flow of information about reputation does not happen easily or naturally. Credit bureaus are a device that permits good (and bad) borrower reputations to become generally known and serve as a collateral asset in competitive credit markets.

- *Mitigating correlated risks with index-based insurance*. Rural economies that have a base in weather-dependent agricultural production systems are characterized by high correlated risk, meaning that most households in a given region will tend to have good years or bad years at the same time. When the latter occurs, loan repayment becomes difficult for many borrowers simultaneously, while many savers will simultaneously seek to withdraw funds to protect their standard of living. Such correlated risk undercuts the stability of financial institutions, and has been used by some authors to explain the relative lack of success of microfinance institutions in reaching rural and agricultural clients.

Index-based insurance (which pays off when an easily observable indicator or index of a correlated shock—such as rainfall—shows a poor outcome) has been proposed by Skees (2003) and others as a way to remove the component of correlated risk from rural economies. Unlike traditional multi-peril insurance, index-based insurance does not cover all losses. While this lessens its effectiveness as an insurance instrument, it eliminates the problem of moral hazard that plagues traditional insurance schemes. More importantly, by removing the threat of correlated risk, it arguably opens the door to entry by microfinance and potential providers of rural loans.

Direct Provision of Financial Services

Governments throughout the world have devised public schemes that provide credit and full (multi-peril) insurance to agricultural producers. In much of Latin America, such schemes proved expensive and ultimately financially unsustainable. While there is some new experience elsewhere in the world with state agricultural banks (see Zeller 2003), the feasibility of direct provision of financial services in Latin America has yet to be tested.

Toward a High Leverage Land Policy

Much of traditional land reform and rural development policy in Central America and Mexico can be located at the extreme southeast and northwest corners of Diagram 1 above. Point A locates the set of administratively mandated, structuralist land redistribution policies that stretched from the Mexican revolution through the Salvadoran and Nicaraguan reforms of the 1980s (see Thiesenhusen 1989). However, these policies were often one-dimensional and did little to ensure sustainable financial market access needed to secure long-term competitiveness of land reform beneficiaries, especially in the wake of parcellation, which created small-scale, individualized holdings (Chile is the archetypical case). Another set of policies were located around point B and were typically found in the form of state agrarian development banks.

A second generation of liberalizing reforms swept most of the region in the 1990s. Property rights were individualized and often ratified the ownership redistributions that had taken place through the first generation of structuralist reforms. At the same time, the increasing costs and apparent ineffectiveness of type B policies led to a retreat toward policies centered around point C. The expectation of these type C policies was that securing private property rights and the removal of the state with its penchant for crowding out private providers of financial services would lead to a world of more rapid growth in which lower wealth households could fully participate.

However, as summarized above, the results of this policy have been mixed and so far at least there is little sign that type C policies have broken the link between unequal land ownership and agrarian performance. The search is thus on for a third generation of agrarian policies.

There are some interesting experiments and ideas out there. Modest experience with market assisted land reform, and ongoing efforts to change the working of rural financial markets via the creation of credit bureaus and index-based insurance. Clearly the thrust of policy remains, however, in the close vicinity of point C.

As is apparent from Diagram 1 and the analysis summarized here, a move toward the northeast of point C is clearly called for. In other words, there is a need for a doubly integrated approach, meaning an approach that integrates land with financial access policies and in so doing integrates growth with poverty reduction strategies.

Note that this is NOT the same as a call to return to the policies of the past. Indeed, the new and innovative ideas are found in the middle (gray-shaded) sector of Diagram 1. Policies in these sectors share a common recognition of both the limit and the power of markets. Markets are powerful in that they place decisions in the hands of those with the information and incentives needed for competitive allocations. But markets are also limited in their ability to serve low wealth households in inegalitarian economies in the presence of costly information. It is also clear that innovations are needed, and careful monitoring and piloting of these new efforts will be essential to the evaluation of their efficacy and to future improvements. Note that these policies are fundamentally indirect. They do not directly provision access to land or finance. Instead, they intend to remove barriers that keep markets from working for low wealth households, and then depend on private initiative and efforts to deliver the goods.

In summary, the best hope for a next generation of land access policies in Mexico and Central America would seem to rest with a coordinated strategy that takes innovative approaches toward making both land and financial markets work for all households in the rural economy.

IV. Lessons and Practical Issues Identified by Policy Makers and Land Policy Program Officers in the Region

Common to all countries was the fact that no national level innovations regarding land access policy, neither ambitious rural credit programs are being undertaken. Of the three countries, whose policymakers and program officers participated in the conference, Honduras is perhaps the one that has made more advances in the direction of—in terms of Diagram1—a sector of policy innovations. Nicaragua moved from a point A situation in the 1980s toward a point C situation after the1990s. Guatemala's land policy space is perceived as a strongly reduced one, due to the strong opposition of sectors of the society to even allow for first-generation land policies.

Honduras

General context

In Honduras, the government is attempting to initiate a process of national transformation after a period where government efforts were mostly concentrated on the reconstruction process that followed Hurricane Mitch. This transformation consists of updating the poverty reduction strategy of the country. For this purpose, several dialog spaces were opened at the national level and across sectors in the last few years, which have produced a series of documents identifying priorities of the new poverty reduction strategy and the aims state policy should look forward to in the next decades, in order to improve the situation of the rural sector. These priorities and aims strongly emphasize an integrated approach to land titling, property rights, and conflict resolution efforts. The national government has begun to institutionalize in different ways this basic integrated approach. An important step to create an adequate institutional framework for new land policy has been the creation of a Law of Territorial Ordering and a Territorial Ordering National Council ascribed to the Secretary of Government and Justice. The latter are supported by a Technical Interagency Land Commission, which organizes and coordinates the technical, operative and participative units participating in the formulation of National Land Policies.

Recent policy measures directed toward improving land access and reducing poverty also comprise the modernization of the Property Register and the Cadastre, the expansion of the Land Titling Program, a National Agreement for Legal Security and Social Equity in Land Access, as well as several efforts to solve agrarian conflicts and look for land access alternatives—such as programs to relocate landless peasants, intensify land use, and communal forestry. Programs or instruments that facilitate land access to poor households and channel government or external funds are executed mainly by the National Agrarian Institute, Finance Secretary, Secretary of Agriculture and Livestock, and National Production and Housing Fund. Some of them were discussed at the conference and are reviewed below.

Land access experience

The most important recent experiences of land access programs in Honduras analyzed at the conference are: the Access to Land Program, PACTA, and the Land Access Fund (LAF).

LAF is a conventional land fund in the sense that it provides credit funds for land purchase to individual producers through credit cooperatives—it is located close to point B in Diagram 1. LAF uses public resources only to give producers with technical and financially viable projects the benefit of reducing their debts and change their payment conditions, allowing them to obtain new credits with low interest rates.[1] The interest rates are pre-established and not competitive, the financial institutions associated with this land fund do not assume any risk, and in case of default on loans, the invested public funds will be lost, the land stays in the hands of the lender and the producer is marginalized from the credit sector.

Results of this program have been the lack of incentives for monitoring on the side of the financial institution and a high rate of default.

The other program mentioned above is PACTA, a pilot program that uses a more multi-dimensional approach to land access. It seeks to assist landless agricultural workers and small-scale landowners with an approach to land reform that provides technical as well as financial assistance. It also tries to facilitate the formation of agricultural enterprises as it provides for a local technical unit, run by an NGO or community group, to work with farm families and cooperatives to draft a business plan to be submitted to a private financial institution seeking a loan to buy land. PACTA performs a three-year monitoring of the groups, enables financial lenders to select the borrowers, and creates more incentives than a conventional land fund to producers to negotiate a low price for land and to avoid default on loans. PACTA is also working closely with women and indigenous groups. Public funds in this program leverage private sector finance only in a 1.5 to 1 relationship. Seventy percent of the land value is accepted as a guarantee by the financial sector and the public sector has to underwrite the other 30 percent.

While hopefully producing viable enterprises, PACTA seems limited in its capacity to leverage private funds. In particular, the experience has shown that financial institutions participating in the program have no capacity to fund loans at a greater scale; their financial technique is deficient as well as their ability to monitor the process. It was suggested that to achieve entrepreneurial development at a national level, external resources have to be linked to the process. The capacity of the local community to provide technical assistance is also poor and some support in this dimension is required. Other concerns, regarding the ability to generate profitable businesses, remain the high interest rates at which credits are taking place and their relatively short term (maximum 8 to 10 years).

Nicaragua

General context

In Nicaragua, the government recently identified agrarian and land policy innovation as a top priority in the national growth and poverty reduction effort that will be undertaken with the assistance of a U.S. State Department Millennium Challenge Account. Until now, the poverty reduction strategy had built on the *Estrategia Reforzada de Crecimiento Económico y Reducción de Pobreza* (2000) (Reinforced Strategy of Economic Growth and Poverty Reduction), which has four basic pillars: 1. Broad-based economic growth and structural reform; 2. Investment in

[1] Ley de Fortalecimiento Financiero del Productor Agropecuario, Decreto No. 68-2003

human capital; 3. Protection to vulnerable groups; and, 4. Governance and institutional development. The latter embraces the restructuring and modernization of state cadastral and registry offices[2] for the land rights regularization, which has been the main focus of land policy in Nicaragua, since the 1990s. The efforts regarding land regularization have historical reasons: Reforms during the 1980s consisted of the administrative distribution of land that led to a more egalitarian distribution of this factor, but left more than half of the beneficiaries of the reforms without a legally valid documentation.[3] Other product of those years was the weakened private trade structures, organizations, productive infrastructure and productivity in general. Many rural development programs have been undertaken since, which have not been able to avoid, however, a land reconcentration process.[4]

Land Access Experience

On the one hand, the country shows a very specialized land policy setting, concentrated on land regularization and modernization of land administration offices. The main program in charge of the latter is the “Programa de Ordenamiento de la Propiedad” (PRODEP), which, however, has a budget size that places it in the category of a pilot, rather than a national program. On the other hand, Nicaragua has highly dispersed and inefficient institutions regarding the productive rural sector.

The need for complementary policies to cadastre and registry is widely recognized and the lack of finance coming from formal banks to support land access is identified as an important barrier to rural development and poverty reduction. Even though local and semi-formal lending has been growing, it is not clear whether these loans are agriculture related. There appears to be a gap in policy promoting financial intermediation in the rural sector, allowing for each supplier of rural credit to develop its services in a way that better suits private interests. This results in high interest rates, low loan amounts, and very short terms. Within the Nicaraguan National Financial System, the most viable source of funds for investments in rural development appears to be financial intermediation through the “Financier Nicaragüense de Inversiones (FNI),” a second tier development bank, which is regulated under political and credit bylaws. This bank seems to be mainly attending medium and greater size producers.[5] Potential sources of funding come from some international technical cooperation projects implemented by government agencies, that have special credit components, for example, to support small producers in rural areas.

Other barriers to land access identified are: the low local capacity to provide technical assistance and—in general—instruction to the human resource, which is related to the low profitability of agricultural production, the low savings capacity of landless or small producers that exposes them to all sorts of uncertainty, the high cost of land legalization and the lack of commercialization channels.

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[2] Oficina de Ordenamiento Territorial (OOT) and the Oficina de Indemnizaciones. In 2001 special tribunals were created for the resolution of property conflicts.
[3] Stadthagen, PRODEP presentation.
[4] Pommier, D. Comments to Nicaragua session.
[5] Chamorro, J.S., presentation.

Guatemala

General context

Although the new government has declared rural development as one of its principal priorities and recently formed the Office of Rural Development for Peace, the fact that agrarian policy in Guatemala is articulated in a complex political context, punctuated by postwar chaos, has delayed the *institutionalization and implementation* of the agreements.[6] In this setting, even first-generation reforms have been limited by the legacy and continued opposition of certain sectors of the society to land policy at all. The lack of a *National Cadastre and Registry* is seen as a result of this opposition, and the fact that most civil society groups would consider progress on a cadastral system and registries as a major advance in land policy is evidence of the basic stage at which land policy is found in the country.

Government sources estimate that less than half of the land used for agriculture is properly titled, and with boundaries clearly established. At the same time the extension of titled land found in the Registry totals more than twice the total land area of Guatemala. [7] The World Bank (1995) also suggests that large landowners are reluctant to sell land for fear that sales might increase demands for land redistribution and invasion. In addition, a majority of landless and land-poor do not have access to savings or collateral to effectively negotiate on a land market,[8] even when favorable interest rates or other concessions are offered. Credit is concentrated in urban areas; while the Land Fund gives credit to small farmers, its budget is much too small. The Ministry of Agriculture (MAGA) has dismantled the Public Agricultural Sector, and no public institution now offers technical assistance.[9]

A more positive look at the situation, though, sees in Guatemala at the present time increased grassroots organization and political activity, gaining strength from global indigenous and landless rights movements and increased political space for dialogue in the last decade.

Land Access Experience

Three institutions were created in Guatemala, in the framework of the "Agreement on Social and Economic Aspects and the Agrarian Situation," in order to work for the achievement of legal certainty in the use, tenancy and property of land: CONTIERRA (Presidential Office of Legal Assistance and Resolution of Land Conflicts), UTJ-PROTIERRA (Juridical Technical Unit,

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[6] Negotiations over the "Agreement on Social and Economic Aspects and the Agrarian Situation" as a subtext of the Peace Accords after the civil war, represented a landmark attempt to redirect and restructure approaches to Guatemala's longstanding "land problem." Two other components of the Peace Accords, the "Accord on Indigenous People's Identity and Rights" and the "Accord on Resettlement of Displaced Populations" also address land issues. The Accord on Indigenous People's Identity and Rights emphasizes the duty to provide state land to indigenous communities, eliminate gender discrimination for land allocation, and promotes measures to regularize the legal situation of communal tenure. The Resettlement accord reiterates the government's commitment to rural development and obligates the government to solve land disputes generated during the war and to identify land for resettlement (Hernández 2000a).

[7] MINUGUA in Hernández 2000b.

[8] Stringer and Lambert 1989: 17.

[9] Land Research Action Network, *Backgrounder Part II: The Agrarian Question in Guatemala*, January 2003. http://www.landaction.org/.

Institutional Committee for Development and Fortification of Land Ownership) and FONTIERRAS (Land Fund).[10]

Guatemala created FONTIERRAS to facilitate land access to the rural poor and to regularize land tenancy (property titles), in favor of small landholders. The experience of FONTIERRAS represents a different example (from PACTA in Honduras) of a model of market-assisted land reform. The role of this land fund consisted of fostering an active and transparent land market, providing, first, a credit for land purchase, and then, a subsidy to help with the capitalization of productive enterprises formed by poor peasants. International donors initially mostly supported it, but after 1999 it becomes an autonomous, decentralized institution that receives state resources.

FONTIERRAS has been providing credits for land purchase at an extremely slow pace and the funds provided by the state are very limited. A total of 191 credits have been provided in six years, benefiting 16,081 families while estimates of the Agricultural Ministry suggest that about 500,000 families in Guatemala are landless or do not have enough land to achieve subsistence. Different authors note that corruption might have its share on the inefficient results.[11] No private financial institutions have been involved in the process; in particular no efforts have been done to leverage private resources with the public funds. Notwithstanding the very low interest rates and the relatively long term of the loans (average of 12 years), the default rate on the loans has been very high. Beneficiaries argue that FONTIERRAS has not followed through with the technical assistance it was mandated to provide. Adding to the above mentioned inefficiency is the fact that land sales are generally overpriced, due to the weight of desire for land over ability to negotiate. This is, there are not enough incentives for competitive transactions to take place. Finally, beneficiaries have shown to be above the lowest socioeconomic levels.[12]

Fernando Paredes from FONTIERRA agrees there should be a variety of means to access land, but it is also important to look at different ways to make it productive. The World Bank notes substantial price speculations in areas where the Land Fund has expressed interest in buying land.

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[10] The first two coordinate and give a follow-up to the Commitments agreed upon in the Peace Accords related to agrarian issues and rural development, help to solve possession or property conflicts and carry out actions to define the institutional-juridical framework related to property of land in “Moving Towards Peace with Reconciliation and Development,” Government of Guatemala, Ministry of Public Finance, Final Report on the Follow-Up Matrix of the Main Issues in the Consulting Group of February 2002. CGGUAfollow/1/ENG/REV.2, April 5, 2003.
http://www.iadb.org/regions/re2/consultative_group/guatemala/2003/01ing.pdf

[11] Hernández (2000b)

[12] Molina-Cruz (2000)

V. Toward a Next Generation of High Leverage Land Policy

There is an emerging consensus that policies to enhance operation of land markets to bolster land access of poor rural households need to be matched by measures that broaden access to capital and to other complementary inputs. Without such matching measures, the ability of less well-off households to access land through either rental or purchase markets is diminished. As a consequence, their access to and productive use of land continues to be problematic in contemporary Central America even in the wake of a broad set of liberalizing reforms.

The creation of a comprehensive program that enables access to both land and complementary factors requires care. The PACTA program in Honduras is an excellent example of a creative effort to enhance access of poor households to both land and capital. Like other land fund and market-assisted land reform programs, PACTA combines a publicly provided grant with private capital in an effort to attain these twin goals. In an ideal model, the grant would give poor households a sufficient asset base to leverage additional market funds on the private capital markets to both access additional land and to cultivate it productively and productively. For example, a $1,000 grant would serve as both down payment for a land purchase and sufficient equity to leverage working capital loans. Such a high leverage model permits scarce public grant funds to stretch further and secures the longer-term competitiveness of beneficiary producers.

Unfortunately, in practice the reality of rural financial markets militates against this model. The PACTA program, for example, is able attain very little in the way of leverage. Private capital finances a fraction of the land purchased, whereas public resources serve to entice that private investment by serving as a source of working capital. In contrast to the ideal model, the grant does not provide an asset base sufficient to permit the beneficiary to operate in the private capital market.

The inability of PACTA and other programs[13] to achieve higher leverage reflects the continuing reluctance of lenders to engage in small agricultural lending. This reluctance is itself the result of risk and moral hazard problems. The key to creating high leverage land access programs is to simultaneously address barriers that block both land access and private capital response.[14] While microcredit programs have devised ways to reduce transactions costs and moral hazard problems that attend small-scale lending to poor households, the problem of correlated risk continues to stymie agricultural microcredit. Innovative ideas such as index-based insurance against correlated risk offer a key policy to open the way to the sort of highly leveraged land access programs needed to enhance growth and poverty reduction in the rural areas of Central America. Yet another idea might be to try tapping into the large inflows of remittances that flow back to rural households in many places. These funds should not be thought of as a direct source of finance, but rather as a source of long-term deposits that can serve to underwrite riskier agricultural portfolios of financial intermediaries.

Moving forward toward a next generation of high leverage land policy requires attention to both land and finance, and specifically to the transactions costs and information constraints that

[13] The South African land reform program, for example, suffers from a similar problem. Beneficiaries receive a grant of almost $3,000, but manage to leverage almost no private capital based on that asset.

[14] In this context, it is instructive to note the experience of both U.S. and East Asian countries where specialized rural financial institutions evolved that could meet the finance needs of family farm-based agriculture.

inhibit the operation of private capital markets in rural areas. The consensus is there that such a policy regime is both desirable and necessary. The challenge is thus to move forward creatively, in an integrated fashion and prepared to learn from innovative programs.

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